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SUBJECT: ONE PRIVATE BANK IN VIETNAM IS MODERN AND INNOVATIVE

REF: HCMC 1002

Summary

1. Asia Commercial Bank, Vietnam's largest privately-held (joint-stock) bank, has managed to build a successful business in a sector fraught with potential pitfalls. The bank is small by international standards, but since it was established in 1993 the bank has grown to assets of about 737 million USD. Most importantly, the bank is profitable and appears to make loans based on genuine principles of credit risk analysis. In a meeting with Ambassador Burghardt, bank management stressed the need for Vietnam to continue financial sector reforms, and that foreign voices should urge the GVN to continue the reform process. Decisions on how to accelerate these reforms would be made at the political level - a level where they and even the State Bank of Vietnam had only limited influence. They openly asked for USG help to encourage Vietnam to accelerate financial sector reforms. ACB management believes that property prices in Ho Chi Minh City have reached speculative levels and will drop substantially next year. End Summary

An Innovative Enterprise

2. On November 20, 2003, Ambassador Burghardt, accompanied by HCMC Econoff, visited Ho Chi Minh City-based Asia Commercial Bank, the country's largest and most successful joint-stock bank. He met with Mr. Tran Mong Hung, Chairman, Mr. Pham Van Thiet, President, and their management team. The bank is well-known for its innovative and modern banking practices. Its reputation was challenged last month when rumors that Mr. Thiet had fled the country triggered a run on the bank (reftel), but the rumor was quashed. About half of the hasty withdrawals have already been redeposited with the bank.

3. The Ambassador's meeting began with a brief tour of the bank lobby, where the Ambassador could see many of the bank's innovations. The space was clean, well-lit, and orderly. The bank had even installed a "Q-Matic" - probably the only one in Vietnam outside our consular section - to minimize waiting. Life insurance counters were set up for two competing firms, gold was available for sale, and racks displayed promotional brochures on the bank's credit cards, bank-by-phone and online banking services. In addition to traditional bank branches, ACB is also setting up kiosk branches and branches in grocery stores. Through all of these initiatives, the bank is positioning itself to appeal to a customer base of primarily urban middle class and wealthy households.

A Lot Can Happen in 10 Years

4. The Bank was established in 1993 and in ten years has expanded to a network of 29 branches throughout Vietnam, with 16 of them in Ho Chi Minh City. It has 11,500 billion VND (about 737 million USD) in assets and total deposits of about 9,200 billion VND (about 590 million USD). The bank offers all of the standard deposit and loan services (in local and foreign currencies and, of course, in gold), as well as credit and debit cards. It is also an agent for Western Union and generates substantial fee income from remittance services. The company has also set up a securities company affiliate and a real estate arm. It has an application with the U.S. Federal Reserve to open up a representative office in the United States.

5. The bank is privately held. The members of the bank's board of directors and management team control about 50% of the equity. Another 25% is held in approximately equal shares by three foreign investors: Jardine Matheson, Dragon Capital, and the World Bank's International Finance Corporation (IFC). Bank management notes that the IFC is an active investor and offers substantial training and technical assistance to the bank. The Ambassador noted that since the USG funds a major portion of the IFC, it is an indirect shareholder of the bank. Mr. Hung said that a few SOEs also have small equity stakes in the bank.

6. According to Chairman Hung, their business is split between 60% retail and 40% commercial banking. Nearly all of its commercial business targets small and medium-sized businesses in the private sector. Chairman Hung told the Ambassador that ACB makes loans only to profitable, commercially viable companies, and

nearly all loans are secured by collateral. He also stated that the bank does about 5% of its business with a few carefully-chosen, profitable state-owned enterprises. Most of these are monopolies that they gauge as good credit risks.

17. When the Ambassador asked how the bank assessed credit risk, Chairman Hung acknowledged that it was difficult, but noted that the IFC had provided substantial risk assessment training to its staff, which was very helpful. He again stressed that the bank only made loans to companies that they evaluated as profitable, commercially viable concerns and that virtually all loans were secured with collateral. Credit risk assessment was extremely important, Chairman Hung stated, because going after collateral in a default situation was extremely difficult. It usually took about three years to successfully foreclose on property, for example. He said that it was easier to dispose of property in cities because land use rights, which were an unwelcome complexity anywhere in Vietnam, were even more complex in rural areas. He expected that the situation would likely improve in the future because the National Assembly was considering a new land law. Ambassador Burghardt noted that for the financial sector to function properly, banks must be able to foreclose in the case of loan default.

Political Actors Decide the Pace of Banking Reforms

18. Ambassador Burghardt asked for ACB's view of Vietnam's financial sector reform. He noted that there was a virtually universal view among international donors that reforms were proceeding much too slowly. Chairman Hung replied that the decision to accelerate reforms would have to be made at "the political level," well above the State Bank of Vietnam. The SBV understands the problem, he said, but their role is limited. He claimed that virtually all of the key decision-makers were aware of what needed to be done, but that it was still difficult to do it.

19. Reforms must continue, he said, because as Vietnam opens its financial sector to foreign players, Vietnamese banks will have great difficulty competing. Ambassador Burghardt asked if state-owned banks were "throwing good money after bad" by continuing to make new loans to loss-making state-owned enterprises. While hardly endorsing the health and stability of the state banks, Mr. Hung noted some positive developments. The SBV had pressured the Ministry of Finance to inject capital into the state-owned banks and use their pre-tax profits to increase their loan-loss provisions. He also stated that over the last two or three years state-owned banks had begun making 20-30% of their loans to private sector businesses. This diversified their loan portfolios, and hopefully these loans were made on a more commercially viable basis.

But ACB Ready to Compete

10. ACB management acknowledged that competition will continue to increase as more foreign banks are allowed to expand their business in Vietnam, but Mr. Hung told Ambassador Burghardt that ACB is ready. Working with the IFC the bank has committed to training and strengthening its human resources. The Chairman noted that it has worked hard to build its target customer base - middle-class to wealthy urban households and small and medium enterprises in the private sector - sectors that are likely to grow. The bank has also successfully introduced a variety of services. For example, as of last year it had issued more than 30,000 credit cards. With so many bank branches and a well-developed customer base, Chairman Hung stated that ACB would be in a good position to form alliances with foreign banks that also have a focus on retail banking. It is already doing so with Citibank in offering one type of loan product.

Don't Buy Land Until Next Year

11. The bank has a growing mortgage business, particularly in Ho Chi Minh City, where it has set up real estate "supermarkets" where buyers can review listings and get information about the market. A typical ACB mortgage is extended for only 30-40% of the purchase price of a home and carries a maximum term of ten years. Econoff asked if ACB was worried about soaring property prices and if we were seeing a property price bubble about to burst. The bankers agreed, stating that property prices had risen to speculative levels and were set to tumble. The market had topped out, they said, and they believed that land prices would fall by about 50% within the next year (as opposed to housing prices, which would presumably fall by a lesser amount.)

12. Mr. Hung claimed that this would not be a major problem for the bank, since most ACB mortgages were for only a small portion of the overall purchase price. Payment terms were set based on stable income flows of the borrower, which were unlikely to be affected by a drop in property prices. Even though property serves as collateral for non-mortgage loans, Mr. Hung stated that ACB credit risk evaluation teams took this speculative pricing into consideration when it assessed the viability of commercial projects and the long term value of property as collateral. This, he believes, will protect the bank from any dramatic price drops.

Nobody Listens to Me

¶13. At the end of the meeting, the Ambassador asked how bankers like ACB participate in or influence discussions on financial sector reform. Mr. Hung noted that it was very difficult to influence the discussion which went on at very high levels in the GVN. He said that the decision-makers understood the situation, but that seemed to have difficulty taking action. He stated that it was very important for the U.S. and other foreign countries to push for these changes. This, he said, may be the most effective way to influence their actions.

Comment

¶14. Chairman Hung and his management team are impressive, and have built a bank to serve Vietnam's growing urban middle class. In a few short years they have built a sizeable branch network, a strong customer base, and attracted foreign investment and expertise. Their innovations should help them compete as Vietnam opens up its financial sector over time. Sadly, these individuals downplay their influence with Vietnam's top leadership. One hopes they have understated their influence, because their expertise and advice are sorely needed if Vietnam's financial sector reforms are eventually to succeed in giving Vietnam the banking system that it needs to prosper and develop.

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